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SENATE BILL 7005 By
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HOUSE BILL 11 of the First Extraordinary Session
By Hargrove

AN ACT to amend Tennessee Code Annotated, Title 67, relative to
taxation of business organizations.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 67-4-804(a), is amended by adding
the following as appropriately designated new items:

() "Affiliated corporation" means a corporation which is a member of a controlled
group as that term is defined in Internal Revenue Code 267(f) or any successor thereto.

() "Pass-through entity" means partnerships, limited partnerships, limited liability
companies, limited liability partnerships and any other unincorporated association on
which the owners include the income, gain and loss of the entity in the owners' federal
tax computations.

() "Pass-through entity unitary business" means the activities of the pass-
through entity.

() "Percentage Interest" with respect to the tax imposed by part 8 of this chapter
means the proportionate interest of the owner in the profits of the pass-through entity.
With respect to the tax imposed by part 9 of this chapter, it means the proportionate
capital interest of the owner.

SECTION 2. Tennessee Code Annotated, Section 67-4-804(a)(1) is amended by
inserting the following at the end thereof:

A corporate owner of a pass-through entity which either participates in the management or control of the pass-through entity directly, or indirectly by virtue of an affiliated corporation, officers, employees or directors of the corporate owner or affiliated corporation so participating, shall be deemed to be engaged in the pass-through entity unitary business activity. If tiered pass-through entities are involved, the ultimate owners of the tiered pass-through entities shall be deemed to be the owner of the pass-through entity engaged in business in Tennessee.

SECTION 3. Tennessee Code Annotated, Section 67-4-804(a)(7)(A) and (B) is amended by deleting the subdivisions in their entirety and by appropriately redesignating the subsequent subdivisions.

SECTION 4. Tennessee Code Annotated, Section 67-4-806 is amended by adding the following as an appropriately designated new subsection:

() A corporate owner of a pass-through entity which either participates in the management or control of the pass-through entity directly or indirectly by virtue of an affiliated corporation or officers, employees or directors of the corporate owner or affiliated corporation, shall be deemed to own its percentage interest of the assets owned or leased by the pass-through entity. If tiered pass-through entities are involved, the ultimate owners of the tiered pass-through entities shall be deemed to be the owner of the pass-through entity engaged in business in Tennessee.

SECTION 5. Tennessee Code Annotated, Title 67, Chapter 8, is amended by adding the following new section to be appropriately designated:

Section 67-8-____.

If one or more affiliated corporations participate in the management or control of the pass-through entity, the pass-through entity unitary business income shall be reported on a combined return by all of the affiliated corporations which are owners of such pass-through entity reflecting their combined percentage interest of the operations

of the pass-through entity unless the commissioner consents to an election by each of the affiliated corporations to the filing of separate returns in Tennessee reflecting such corporation's percentage interest of the pass-through entity unitary business income.

SECTION 6. Tennessee Code Annotated, Title 67, Chapter 9, is amended by adding the following as a new appropriately designated section:

Section 67-9-____.

If one or more affiliated corporations participate in the management or control of the pass-through entity, each of the affiliated corporations which are owners of such pass-through entity must file combined returns and pay tax on the combined percentage interest of the ownership interest, surplus and undivided profits of the pass-through entity unless the commissioner consents to an election by each of the affiliated corporations to the filing of separate returns in Tennessee reflecting each of the affiliated corporation's percentage interest in the ownership interest, surplus and undivided profits.

SECTION 7. Tennessee Code Annotated, Section 67-4-817(c)(1), is amended by adding the following new subdivision:

(D) Notwithstanding the above or section (c)(2) hereof, for quarterly estimated excise tax payments due on or between April 15, 1998, and July 15, 1999, there shall be no penalty for underpayment of estimated tax to the extent that timely paid estimated payments equal to one-fourth (1/4) of the estimated tax for the prior year or eighty percent (80%) of the tax for the current taxable year, calculated as if the law in effect on January 1, 1999, was applicable, less the amount of any installment paid on or before the last date prescribed for payment. Estimated tax payments for the remainder of 1999 shall not be subject to penalty if each such payment equals one-fourth (1/4) of the excise tax for the prior year or eighty percent (80%) of the tax for the current taxable year calculated as if all estimated tax payments on or before July 15, 1999, were equal to eighty percent (80%) of the tax for the current taxable year.

SECTION 8. This act shall take effect upon becoming a law and shall apply to tax years ending on or after the effective date, the public welfare requiring it.